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FINANCIAL DIGEST

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GLOBAL INTEREST RATES HEAT UP . . .

The recent surge in the external value of the dollar, prompted primarily by sharply rising domestic interest rates, has compounded inflationary pressures in Europe and Japan. With the dollar now strengthening almost daily against the Continental currencies and the yen, it will not be too long before higher dollar-denominated import costs (especially for oil and other raw materials) begin to affect adversely these countries' price indexes. In response, monetary policies throughout the industrial world have been tightened, in an attempt to minimize the inflationary consequences of depreciating currencies. This, in turn, has pushed interest rates significantly higher worldwide, raising the possibility of both a global interest rate war as well as a simultaneous slowing of economic activity in the industrial countries.

Looking back, it is now apparent that the emerging international interest rate competition received fresh impetus from a recent development in the United States. As a result of accelerating inflation at home and a sagging dollar abroad, the Federal Reserve last October 6 implemented a series of measures—including a one percentage point hike in the discount rate—designed to dampen domestic price pressures and credit demands while enhancing the external attractiveness of dollar-denominated assets. But while the dollar firmed initially, most of the early gain was soon offset by policy actions abroad which lifted foreign interest rates, and by a stepped-up flight to precious metals. Within only eight weeks of the October initiatives, no fewer than ten other industrial countries had also raised their central bank discount rates, including such major trading partners of the United States as Canada (175 basis points), Japan (100 basis points), Germany (100 basis points) and the United Kingdom (300 basis points).

Not surprisingly, the most recent tightening of U.S. monetary policy—which included, on February 15, another one per cent hike in the discount rate—prompted similar reactions in Europe and Japan. Within two weeks, Germany raised its discount rate from six to seven per cent, Switzerland hiked its central bank rate by one percentage point (and lifted a five-year ban on interest payments on foreign-owned Swiss bank accounts), Belgium lifted its discount rate by 150 basis points, and Japan, beset by a wide variety of economic problems ranging from rising inflation to a widening current account deficit, increased its discount rate from 6.25 to 7.25 per cent and may well raise this key rate again. Finally, the Bank of Canada began, on March 13, to "float" its discount rate, a move that ensures that Canada's rate will remain abreast of similar rates abroad.

In sum, the credit tightening moves initiated in the United States have been received with mixed emotions overseas. Although other countries undoubtedly welcomed the decision by the U.S. authorities to tackle vigorously our ongoing price inflation, this effort has, to some extent, upset their own anti-inflation strategies. For many Continental countries, an appreciating currency had been a useful tool in dampening domestic price pressures. Unfortunately, the rise of the dollar threatens this policy. Soon, the "new" protectionism may well refer not only to the administrative isolation of domestic markets but also to the administrative protection of a currency's external strength.

. . . COOLING DOWN METALS' PRICES

Whereas much of the dollar's post-October 6 advance was soon greeted by an accelerated flight to precious and non-precious metals, recent metal price trends seem to have reinforced, rather than inhibited, the dollar surge. For example, between early-October and mid-January, gold prices rose almost $500 per ounce while silver prices more than tripled, reaching $48 per ounce on January 21. This development was indicative primarily of the growing desire among international asset holders to move away from "paper" assets and currencies whose purchasing

(continued)

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures – Millions of Dollars)

	Week Ending 3/14/80	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	123,170	+1,712	+11,776
Member Bank Borrowings	2,508	+ 451	+ 1,482
Float	4,603	—3,104	— 3,262
Total Reserve Bank Credit	134,907	— 638	+ 8,421
Treasury Deposits with Federal Reserve Banks	2,658	—1,024	— 1,149
Currency Outside Banks	110,731	— 82	+ 9,173
Member Bank Reserves:			
Required	42,481	— 534	+ 2,254
Excess (Deficiency)	556	+ 784	+ 385
Total Reserves Held	43,037	+ 250	+ 2,639
Net Borrowed Reserves	1,838	— 338	+ 1,090
Money Supply (Bil., SA) M1-A	374.5	— 0.2	+ 6.3%
Money Supply (Bil., SA) M1-B	391.3	+ 0.2	+ 7.5%
		Change Since Month Ago	Change Since Year Ago
M2 ($ Bil., SA) (Jan. '80)	1,532.7	+ 8.9	+ 9.0%
L ($ Bil., SA) (Dec. '79)	2,138.7	+ 14.5	+ 10.4%

NEW YORK MONEY MARKET

Offering Rates 3/14/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.16%	15.15%	14.01%
*Federal Agencies	16.67	15.72	15.50
*Project Notes—Tax Free (46% Taxable Equivalent)	12.96	13.88	13.88
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	18.05	18.15	

‡Finance Company Paper—Prime

5- 14 days	15.00%
15- 29 days	16.25
30- 59 days	16.50
60-179 days	16.75
180-270 days	15.00

‡*Bankers' Acceptances

Apr.	17.00%
May	17.20
June	17.20
July	17.20
Aug.	17.05
Sept.	16.70

‡Industrial Paper—Prime

30- 89 days	16.63
90-120 days	16.75

†Federal Funds Effective Rate 16.30%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'79	$ 2,459	$ 2,397	$ 2,235
Gross National Product (1972 Dollars)*	4th Q'79	$ 1,441	$ 1,433	$ 1,427
Percent Change, Annual Rate	4th Q'79	2.1%	3.1%	5.6%
Change in Consumer Prices (all urban consumers)*	Jan. '80	16.8%	14.4%	10.8%
Change in Producer Prices*	Feb. '80	18.0%	19.2%	13.2%
Civilian Employment (Thousands of Persons)†	Feb. '80	97,953	97,804	96,496
Unemployment as % of Civilian Labor Force†	Feb. '80	6.0%	6.2%	5.7%
Personal Income*	Jan. '80	$ 2,036	$ 2,024	$ 1,818
Leading Indicators Composite Index (1967=100)†	Jan. '80	135.1	136.0	142.6
Industrial Production Index (1967=100)†	Feb. '80n	153.0	152.7	152.0
Net Change in Consumer Installment Credit†	Jan. '80n	$ 1.37	$ 1.35	$ 3.07
U.S. Merchandise Trade Balance†	Jan. '80n	—$ 3.60	—$ 2.92	—$ 3.26
Plant and Equipment Expenditures*	2nd Q'80n	$193.83(a)	$189.49(a)	$173.48
Private Housing Starts (Thousands of Units)*	Jan. '80	1,420	1,517	1,727
New Construction Expenditures*	Jan. '80	$ 246.1	$ 242.2	$ 212.3
Total Business Inventories†	Dec. '79	$ 426.3	$ 424.4	$ 379.6
Total Business Sales†	Dec. '79	$ 301.3	$ 299.3	$ 272.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (2/27/80)	92,976	+ 976	— 1,979
New York City (2/27/80)	20,073	+ 188	— 7,610
Commercial Paper (2/27/80)	118,100	— 54	+29,129

BANK LOANS
(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/27/80)	158,912	— 891	+23,125
New York City (2/27/80)	47,306	— 933	+ 8,264

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/27/80)	399,715	—1,331	+52,802
New York City (2/27/80)	90,044	—1,353	+12,439

SECURITY MARKETS

	Friday 3/14/80	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	15.30%	— .20	+ 5.79
180-Day Bills (Discount Basis)	15.30	+ .22	+ 5.80
Longest Bills (Discount Basis)	14.12	+ .12	+ 4.63
13⅞s 2/28/82	98.12	+ 12/32	
11⅞s 8/15/83	95.17	+1-9/32	
10¾s 11/15/89	90.12	+2-12/32	
11¾s 1/15/10	96.16	+1-16/32	
Municipals:			
Bond Buyer—20 Bond Index* (3/13/80)	9.08%	+ .14	+ 2.78
Blue List Total ($ Million)	$ 456	—$ 80	—$ 432
30-Day Visible Supply ($ Million)	$1,398	—$ 627	+$ 155
Total	$1,854	—$ 707	—$ 277
Corporates:			
Moody's Aa Composite (3/13/80)	13.50%	+ .07	+ 3.89
Money Mgr.—30-Day Supply ($ Million)	$1,675	+$ 110	—$ 433
Stocks:			
Dow-Jones Averages			
Industrials	811.69	— 8.87	— 41.13
Transportation	261.78	— 11.06	+ 44.50
Utilities	102.81	— 0.61	— 0.44
65 Stocks	294.44	— 5.73	+ 7.00
Standard and Poor's 500 Stocks	105.43	— 1.47	+ 4.74
N.Y.S.E. Composite Index	60.07	— 0.89	+ 3.52
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,316	— 8,342	+ 9,764

*46% Taxable Equivalent 16.81%

INTERNATIONAL RATES

	Friday 3/14/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	17.75%	17.00%
1 month	18.63	18.25
3 months	19.06	19.00
6 months	19.13	19.00
1 year	17.81	17.75
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.30%	14.50%
Long Term (10 to 15 yrs.)	14.10	14.75
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03352	.03427
Canada	.8509	.8639
France	.2326	.2375
Germany	.5433	.5562
Italy	.001172	.001198
Japan	.004008	.004025
Mexico	.04374	.04372
Netherlands	.4954	.5073
Switzerland	.5654	.5822
U.K.	2.2027	2.2235

power was perceived as being constantly eroded by inflation and foreign exchange market upheavals and toward more "tangible" assets. Since most of the "paper" assets being liquidated were dollar-denominated, the dollar's external value weakened. Ominously, the run-up of gold and silver prices also spilled over into the non-precious metals market. Copper prices climbed from $1.04 per pound at yearend 1979, to $1.41 per pound by mid-February.

Since the latest discount rate increase, however, on February 15, metals prices have staged a broad retreat, reflecting, at least in part, the sharply higher yields now available in the financial markets. Consequently, with both short- and long-term interest rates reaching historic highs in the United States and the dollar rallying strongly abroad, the price of gold has declined. In less than one month, gold fell by almost $150 per ounce, silver prices have fallen 25 per cent, and copper is hovering around the $.95 per pound mark. Most important, it must be remembered that these declines may only be temporary, prompted more by alternative rates of return, not the abatement of either inflationary pressures or expectations.

NO SYNCHRONIZED DOWNTURN—YET

Getting back to comparative rates of economic activity in the industrial countries, at the moment, the U.S. remains out of synchronization with growth trends among its major trading partners. Over the past year, industrial production in the U.S. has virtually flattened. By contrast, output in most other countries has climbed much faster. In France, for example, industrial production in the latest 12 months is 2.3 per cent above the year before, while in the United Kingdom the 12-month growth rate is 2.7 per cent. Canada's output has climbed 3.6 per cent over the year, while activity in West Germany is 4.1 per cent higher. Two countries are in an outright boom. In Japan industrial production is a hefty ten per cent over last year, while in Italy the 12-month jump is nearly 11 per cent.

This diversity in growth trends appears likely to continue. Those economic statistics that usually anticipate changes in national output or employment by several months continued to rise last year for these same six industrial countries, while the leading economic indicators drifted downward throughout most of last year in this country. Retail sales in the U.S. dropped by about two per cent in February compared with January, after adjusting for both seasonal variations and rising prices. Furthermore, both consumer confidence and buying plans declined in January, according to the Conference Board, with a substantial part of the decline stemming from consumer worries about employment trends. Finally, the sharp increase in interest rates appears to have reduced the consumer's ability to borrow money.

In the two most recent months, growth in consumer credit was at the slowest rate since early 1975. This is not surprising, in view of the sharp cutbacks in consumer lending initiated by the banks—especially in those states where usury laws keep the maximum that can be charged on consumer loans far below money market rates. This cutback may have come just in time. Delinquencies on bank installment credit appear to be on the rise. In New York State alone, the delinquency rate at yearend stood at 4.3 per cent. This was up 0.5 per cent in one month and represented the highest delinquency rate on bank installment credit for any month in more than three years.

Business spending plans are being cut back, too. The latest survey of capital spending plans taken by the Commerce Department shows an increase this year of only one to two per cent after adjusting for inflation. Last year's rise in capital spending adjusted for higher prices was close to five per cent. It is easy to see why business spending is being cut back. Outlays on office buildings and other commercial real estate are being affected by an inability of developers to obtain commercial mortgage loans. Other types of business borrowing are beginning to be affected by state usury laws that limit the maximum interest rate that can be charged to business borrowers. And in many cases, the high cost of money itself, makes borrowing less worthwhile. For example, the typical new car dealer pays close to 22 per cent to finance inventories of unsold vehicles.

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